Malaysia: Telecommunications and Broadcasting

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Summary

Malaysia has always been one of the forefront countries in the South East Asian region for high-tech consumption. The country took a giant leap with unprecedented trade volume surpassing RM1.069 trillion (US$1=RM3.5, US$305 billion) for 2006. All this bodes well for U.S. exporters in the telecommunications and broadcasting industries as Malaysian is a net importer of technology. Mobile Entertainment, 3G, Next Generation Networks (NGN), Instant Messaging (IM), Voice-over IP (VoIP), WiMAX, Wireless Local Loop (WLL), IP VPN services, and Interactive TV and Radio are some of the best prospects for Malaysia.

Market Demand

Malaysia has entered new economic heights. It took a giant leap as a trading nation when its trade registered an unprecedented volume, breaching RM1.069 trillion (US$1=RM3.5, US$305 billion) for 2006. This is an increase of 10.5 % over the previous year. Exports expanded by 10.3%, while imports grew by 10.7%. GDP for 2005 stood at 5.2%, with 5.8% expected for 2006. In tandem, the stock market sentiment is also at an all time high. The Kuala Lumpur composite index (KLCI) has reached the 1200 point level. The last time KLCI breached this level was prior to the 1997 Asian financial crisis.

All this bodes well for U.S. exporters in the telecommunications and broadcasting industries as Malaysian is a net importer of technology. On the government front, development allocation for telecommunications sector for the Ninth Malaysian Plan (9MP), is RM533 million (US$152 million), while information technology and broadcasting allocation is RM450 million (US$129 million). The 9MP charts Malaysia's development agenda for 2006-2010. The Government of Malaysia (GOM) is the major planner in the development and industrialization of the nation. Malaysia plans to be an industrialized nation in the year 2020.

On the industry front, Maxis Bhd (www.maxis.com.my) has set aside US$172 million for 3G expansions, and Digi Telecommunications Sdn Bhd (www.digi.com.my) capital expenditure (capex) is US$214 million. Digi's capex is for coverage extension; improved quality of coverage and to introduce more innovative products to consumers. TM Bhd's cellular arm, Celcom Bhd (www.tm.net.my, www.celcom.com.my) and Maxis were awarded 3G licenses back in 2002. Although favored to be one of the recipients of next trench of 3G licenses, Digi's application rejection shocked the market. In March 2006, two other non-Telco based recipients were awarded 3G licenses, MiTV Corporation Sdn Bhd and Time dotCom Bhd.

Celcom continuously aim to regain its market leader foothold in the cellular area, having lost to Maxis in recent years. Whereas mobile carriers' market share kept increasing, this is at the expanse of fixed-line/ wire-line operator, TM Bhd. As of Q306, Malaysia's fixed-line penetration rate is at 16.2% out of a population of 26.4million. Meanwhile, 80% of the Malaysian population has cellular phones. The market share of Maxis, Celcom, and Digi is around 40:35:25 respectively.

On the broadcasting side of things, 97% of Malaysian households have access to FTA TV and radio. The Malaysian Communications and Multimedia Commission (MCMC)-- Malaysia's ICT and Broadcasting regulatory body, target is to achieve 99% household penetration by 2007. The convergence of ICT and broadcasting provides an alternative network in delivering digital content. Digital television (DTV) services serves as alternative conduit for extensive content value creation and diffusion. State owned Free-To-Air (FTA) TV stations, RTM 1 and 2, will offer these services initially via terrestrial transmission within the Kuala Lumpur metropolitan area, followed by nationwide rollout. Malaysia's FTA broadcasting, mostly in analogue format, consists of six stations. Media Prima Bhd owns four stations, and the other two are state-owned.

RTM is in a trial project for digital transmission since September 2006, and it had selected DVB-T as the transmission standard for its trials. US$21 million has been set aside for RTM pilot analogue to digital

broadcasting transition project involving 1000 homes. US$132 million is the estimated allocation for the full fledge nationwide RTM digital transition. A further US$10.5 million will be allocated for replacement of studio equipment. RTM views DTTB as a way to fight competition from satellite, other multi-channel pay-TV stations, and video on demand (VoD) stations. Interactive digital solutions will be in demand. The RTM pilot project will encompass upgrading the transmission center and installing digital transmitters. The nationwide rollout will predominantly involve digital transmitters. Studio equipment replacement will include studio TV cameras, and video servers. The digital transition nationwide rollout is expected by 2010.

Astro, MiTV, and Fine TV are three subscription based pay-TV providers in the market. While FTA stations are mostly in analogue format, the subscription based pay-TV providers are presenting Malaysians with digital viewing experience. Astro All Asia Networks plc, an affiliate company of Maxis Bhd, is the market leader in the subscription based pay-TV arena. As of February 15, 2007, it has more than nine million Malaysian viewers over two million homes. In addition to satellite Direct-To-Home (DTH) services to Malaysia, Brunei and Indonesia, it also provides a host of cross-media services, i.e. eight FM terrestrial radio stations and 17 music channels distributed over DTH platform. Transmitting its digital signal via three Malaysia East Asia Satellite (MEASAT) satellites, owned by its sister company MEASAT Satellite Systems Sdn Bhd, it utilizes the high-powered Ku-band payload of the MEASAT system.

MiTV is Malaysia's second multi-channel pay TV. MiTV's broadcast technology is homegrown, using Internet Protocol Television (IPTV) and Ultra High Frequency (UHF) transmission. The system is based on Digital Video Broadcast (DVB-T) standards, and MiTV has termed this homegrown system as "IP over DVB-T." MiTV's content is digitally compressed and transmitted via *UHF*, allowing the optimal delivery of video, audio and data streams. Utilizing *UHF* to transmit content to end users, MiTV is substantially increasing the downlink capacity to customers that were previously constrained by the limitations of telephone networks. A single *UHF* band can easily carry multiple channels of up to 22Mbps. By leveraging on the low cost infrastructure of *UHF* and Internet technologies, MiTV has developed a high-speed pay-TV service that delivers content, instant messaging, email and web surfing.

Fine TV is the third company licensed to provide a multi-channel, interactive, broadband, video-on-demand, edutainment pay-TV station in Malaysia.

Market Data

Mobile players are entering a new phase of market dynamics. Market maturity is forcing carriers to reposition and further differentiate themselves. Constant first-to-market introduction of new mobile solutions and faster mobile broadband speed are some of the differentiation methods to increase user base and Average Revenue Per User. Cellular content and value added services are key growth areas. 82% of Malaysians use cellular services, of which 85% are pre-paid users. Fixed-line/ wire-line telephony penetration is on the decline. From a high of 19.7 per 100 inhabitants in 1998, 2006 Q3 penetration rate was reduced to 16.2 per 100 inhabitants.

Major Telecom/Broadcasting Indicators

	Fixed-Line		Cellular Phone		Internet		Broadband Interne		Pay TV	
Population/ Households	# Of SS	P Rate (%)	# Of SS	P Rate (%)	# Of SS	P Rate (%)	# of SS	P Rate (%)	# Of HH	P Rate (%)
Sample 26.4 M/5.7M	4.4 M	16.2%	22 M	82%	3.8 M	14%	0.8M	2.8%	1.93M	35%

Notes: M - Millions, SS - Subscribers, P - Penetration, and HH - Households.

Information and Communications Equipment (Million US$)

	2004	2005	2006 (estimates)
Total Market Size	1465	1485	1500
Total Local Production	14200	20200	20500
Total Exports	24507	31527	32000
Total Imports	11772	12812	13000

Source: Malaysian Department of Statistics
*Unofficial estimates generated by the Commercial Service in Kuala Lumpur

Digital Broadcasting Equipment (Million US$)

	2004	2005	2006 (estimates)
Total Market Size	1873	1885	2014
Total Local Production	9	12	14
Total Exports	2325	2527	3000
Total Imports	4189	4400	5000

Source: Malaysian Department of Statistics
*Unofficial estimates generated by the Commercial Service in Kuala Lumpur

Best Prospects

Best prospects for U.S. companies are in the following area:

- 3G
- WiMAX
- IP VPN
- Voice-over-IP (VoIP)
- Mobile entertainment
- Instant Messaging (IM)
- Wireless Local Loop (WLL)
- Interactive TV and Radio
- Next Generation Networks (NGN)

Market Entry

An agent typically handles customs clearance, work with established wholesalers and retailers, market promotion of the product directly to corporations and/or the government. They also handle after-sales service. Thus, most U.S. exporters find that using in-country distributors can be an easy first step entering the Malaysian market.

As only local agents and/or a joint venture partner can submit tenders for government projects, hence it is of utmost import that U.S. companies work with them. Direct involvement by the U.S. company and demonstrations of long-term commitment to the local market are essential for contracts of significant size.

Market Issues & Obstacles

Information Technology products and software are generally not subject to tariffs or taxes. Most of the telecommunications equipment, on the other hand, is subjected to import duty between 5-15% and/ or sales tax of 10%. Broadcasting equipment import duties generally range from 0-50%. 50% import duties are for TV camera and receiver parts. 10% of sales tax is levied for certain categories of broadcasting equipment.

Certain broadcasting equipment imported into Malaysia needs to be approved from the proper Malaysian authority prior to the issuance of an import permit. This is especially so for equipment with communication functions. Once approval has been granted, then import permits (where needed) will be issued.

Special approval can also be obtained for evaluation units. Equipment importation that is intended for evaluation or testing purposes can be imported for up to six months without approval. In some instances, it can be extended up to five years.

Please note that import permits issued by SIRIM Bhd are required for all telecommunications equipment. The Malaysian Energy Commission is responsible for the issuance of import permits for broadcasting equipment that does not have communication functions.

Besides tariffs, there are continued concerns regarding Malaysia's effectiveness in protecting IPR, as evidenced by the continued high rate of production and export of pirated optical disc media.

Trade Events

- PS³ Conference & Exhibition 2007, July, Kuala Lumpur Convention Center, www.pikom.org.my
- ASEAN Communications and Multimedia 2007, November 20-22, Kuala Lumpur Convention Center, www.acm-expo.com
- International Broadcasting Industry 2007, November 20-22, Kuala Lumpur Convention Center, www.acm-expo.com/ibis/
- WCIT 2008, May 18-22, Kuala Lumpur Convention Center, www.wcit2008.org

Resources & Key Contacts

- Malaysian Communications and Multimedia Commission (MCMC): www.cmc.gov.my
- Malaysian Energy Commission: www.st.gov.my
- SIRIM Bhd: www.sirim.my
- U.S. Commercial Service Market Research Worldwide: www.export.gov

For More Information

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